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Tema: Robust Statistical Portfolio Investment in Modern Portfolio Theory: A Case Study of Two Stocks Combination in Kuala Lumpur Stock Exchange

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Pontos principais

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| 1 | Modern Portfolio Theory was developed by Harry Markowitz based on the approach that investors can construct portfolios investment to optimize or maximize expected return.(...)  Modern Portfolio Theory also quantify the benefits of diversification and explore how risk-averse investors construct portfolios to optimize expected returns against market risks, linking both the expected return (or mean) of a portfolio diversification return and the variance of portfolio returns as the investment risk | Contextualizando a teoria de markowitz |
| 2 | The modern portfolio theory indicates that the portfolio risk can be reducing by diversifying type of assets in investment. |  |
| 4 | Modern Portfolio Theory (MPT) is a theory of finance that attempts to maximize portfolio expected return for a given amount of risk, or minimize the risk for a given level of expected return (Ross, et al., 2015) [33]. Modern portfolio theory is also known as Markowitz portfolio theory. Markowitz provides tool for identifying the portfolio which give the highest return for a particular level of risk. Markowitz states total risk of the portfolio can be reduced by diversification. The risk can be reduced by selecting assets with low positive correlation or negative correlation. There are five assumptions that underlying this theory. The assumptions are:   1. Investors consider each investment alternatives as being presented by a probability distribution of expected returns of over some holding periods. 2. Investors maximize one-period expected utility and their utility curve demonstrates diminishing marginal utility of wealth. 3. Investors estimate the risk of the portfolio on the basis of the variability of expected returns. 4. Investors’ base decision solely on expected return and risk, therefore their utility curves based on function of expected return and expected standard deviation. 5. For a given level of risk, investors prefer higher returns to lower returns. Similarly, for a given level of expected returns, investors prefer less risk to more risk.   The modern portfolio theory is constructed by two main equations which are expected return and variance for a portfolio investment. The expected rate of return for portfolio is weighted average of expected returns on the securities in the portfolio, as shown in Equation |  |